

AR30

annual report 1973

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BRENDA MINES LTD.

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BRENDA MINES LTD.

(Incorporated under the Companies Act, British Columbia)

REGISTERED OFFICE: The Mine Office, Brenda Mines Road, Out of Peachland, B.C.

DIRECTORS

Bernard O. Brynelsen	-	-	-	-	-	-	-	-	-	-	Vancouver, B.C.
Mervin E. Davis	-	-	-	-	-	-	-	-	-	-	Vancouver, B.C.
John A. Hall	-	-	-	-	-	-	-	-	-	-	Toronto, Ont.
Morris M. Menzies	-	-	-	-	-	-	-	-	-	-	Vancouver, B.C.
Richard V. Porritt	-	-	-	-	-	-	-	-	-	-	Toronto, Ont.
Alfred Powis	-	-	-	-	-	-	-	-	-	-	Toronto, Ont.
William S. Row	-	-	-	-	-	-	-	-	-	-	Toronto, Ont.
Horace B. Simpson	-	-	-	-	-	-	-	-	-	-	Kelowna, B.C.
H. Richard Whittall	-	-	-	-	-	-	-	-	-	-	Vancouver, B.C.

OFFICERS

Chairman	-	-	-	-	-	-	-	-	-	-	Bernard O. Brynelsen
President	-	-	-	-	-	-	-	-	-	-	John A. Hall
Executive Vice-President	-	-	-	-	-	-	-	-	-	-	Richard V. Porritt
Secretary	-	-	-	-	-	-	-	-	-	-	B. H. Grose
Treasurer	-	-	-	-	-	-	-	-	-	-	E. K. Cork
Comptroller	-	-	-	-	-	-	-	-	-	-	A. H. Zimmerman

MINE OFFICE: P.O. Box 420, Peachland, B.C., G. H. Montgomery, Manager.

SOLICITORS: Davis & Company, 14th floor, 1030 West Georgia Street, Vancouver.

AUDITORS: Peat, Marwick, Mitchell & Co., 900 West Hastings Street, Vancouver.

TRANSFER AGENT AND REGISTRAR: Canada Permanent Trust Company,
455 Granville Street, Vancouver, and
1901 Yonge Street, Toronto.

ANNUAL MEETING: May 1, 1974, 3:30 p.m., Hotel Vancouver, Vancouver, B.C.

AR29

Results for the first six months of 1973 were appreciably better than those of the previous year, despite a 41-day shut-down due to a strike and completion of necessary repairs.

The major factors contributing to this improvement were higher world metal prices together with a stronger demand for molybdenum. Improved cash flow has enabled the company to commence repayment of its long-term debt and two million dollars of first mortgage bonds were retired during the second quarter.

August 6, 1973.

Printed in Canada

February 13, 1974.

File

BRENDA MINES LTD.

Mine and Registered Offices: Peachland, B.C.

Interim Report to the Shareholders
Six Months Ended June 30, 1973

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President.

FINANCIAL SUMMARY

Six Months Ended June 30, 1973
(Not Audited)

	1973	1972
	(in thousands)	
OPERATIONS		
Value of concentrates produced	\$ 17,045	\$ 13,479
Operating costs	5,845	7,165
Interest on long-term debt	2,374	2,419
Depreciation and preproduction expenses written off	3,310	4,707
Provided for income taxes	1,065	110
	<u>12,594</u>	<u>14,401</u>
Net earnings (loss)	\$ 4,451	\$ (922)
Earnings (loss) per share	<u>\$ 1.04</u>	<u>(21.5)¢</u>

SOURCE AND APPLICATION OF FUNDS

(1972 restated for comparative purposes)

Working capital, beginning of year	\$ 15,286	\$ 15,361
Source		
Operations		
— Net earnings (loss)	4,451	(922)
— Depreciation and preproduction expenses written off	3,310	4,707
— Amortization of financing expenses	332	332
— Deferred income taxes	694	—
Miscellaneous	29	146
	<u>8,816</u>	<u>4,263</u>
Application		
Fixed assets	312	807
Reduction in long-term debt	2,000	—
	<u>2,312</u>	<u>807</u>
Increase in working capital	6,504	3,456
Working capital, end of period	<u>\$ 21,790</u>	<u>\$ 18,817</u>

DIRECTORS' REPORT TO THE SHAREHOLDERS

Submitted herewith is the Annual Report together with the report of the auditors for the year ended December 31, 1973.

Earnings

Net earnings of \$15.5 million are the result of higher metal prices and a \$2.5 million realization on molybdenum inventory in excess of the December 31, 1972 book value. The balance of preproduction costs written off was \$4.3 million less than in 1972.

Since depreciation and amortization were not claimed during the tax-free period, they were available when calculating federal taxes for 1973.

Financial

The First and Second Mortgage Bonds totalling \$26.6 million were repaid during the year. Significant reductions in the \$29.8 million Secured Income Bonds outstanding are expected to be made in 1974.

Sales and Markets

The high copper concentrate inventory of 15,210 tons at year-end was reduced to normal level with a shipment of 10,400 tons on January 3, 1974. All copper concentrate shipments during the year went to Japan.

In 1973 refined copper consumption in the Western World was up 10% while strikes and delays in new capacity held output to a 3% increase. Commodity exchange stocks declined 216,500 tons to 42,900 tons.

Prices on the London Metal Exchange rose from 48¢ in January to a record \$1.20 in December and eased to 91.5¢ at year-end. The producers' price in the United States was increased three times in the first quarter, moving from 50.5¢ to 60¢. Price controls prevented further adjustment until December when an increase to 68¢ was permitted. Canadian producers followed United States levels until July when their North American price was increased to 67¢ and in October to 74¢.

Against production of concentrate containing 8.3 million pounds of molybdenum, sales were 14 million which reduced the unsold inventory to 5.3 million pounds.

Western World molybdenum consumption was 165 million pounds up 23%. Production, which had been at reduced rates, returned to capacity levels by the year end and was 145 million pounds. Stocks declined 20 million pounds to 134 million, near normal levels. The U.S. stockpile of 43.7 million pounds has been released to U.S. industry on a long-term basis. The improved market conditions led to re-establishment of 1969 price levels and elimination of the heavy discounting experienced over the past two years. The outlook appears favourable although there is some evidence of reduced demand in the steel industry as a result of energy shortages in Europe and Japan.

General

The resumption in growth of demand for metals and minerals which commenced in 1972 gained rapid momentum throughout 1973 leading generally to higher prices, reduced producer and commodity exchange stocks and some shortages. While this rate of growth is expected to moderate in 1974, the outlook is favourable, particularly for copper and molybdenum, subject to the impact of high wage rates, possible shortages in operating supplies and unknown provincial government legislation on royalties and taxes.

During 1973 labor agreements in the British Columbia mining industry leap-frogged one over the other, placing Brenda's rates below the industry average. On February 7, 1974 the employees ratified a memorandum of settlement providing an immediate wage increase of 10%, over the present contract. In return the contract was extended by five months to September 11, 1975.

Your directors are pleased to announce that Mr. G. H. Montgomery has been appointed Vice-President and General Manager and express their appreciation to him and his staff, and all employees for their contribution to a successful year of operations.

On behalf of the Board,

J. A. Hall.

February 13, 1974.

President.

MANAGER'S REPORT

To the President and Directors:

I submit herewith my report on operations for the year ended December 31, 1973.

Operations		1973	1972
Waste stripped	— Tons	4,494,300	5,902,100
Low-grade ore stockpiled	— Tons	2,862,800	3,233,400
Ore milled	— Tons	8,867,800	9,503,190
Ore milled per calendar day	— Tons	24,295	25,965
Ore milled per operating day	— Tons	27,454	25,965
Copper grade	— % Cu	0.203	0.208
Copper recovery	— %	89.06	90.43
Molybdenum grade	— % Mo	0.058	0.061
Molybdenum recovery	— %	81.74	86.06
Copper concentrate	— Tons	58,842	82,703
Copper concentrate grade	— % Cu	27.25	21.58
Molybdenum concentrate	— Tons	7,373	8,975
Molybdenum concentrate grade	— % Mo	56.60	55.97

Open Pit

Pit operations were routine throughout 1973 although equipment availability declined slightly due to operating age. Uphill haulage increased during the year causing slightly lower productivity at 917 tons per manshift.

After milling 8,867,800 tons of ore during 1973, ore reserves declined by 8,540,000 to 136,637,000 tons having an average grade of 0.179% copper and 0.046% molybdenum. The grade of ore mined during 1974 is expected to average 0.184% copper and 0.055% molybdenum.

Concentrator

The milling rate increased in 1973 to an average of 27,454 tons per operating day. Metal recoveries were lower due to metallurgical problems arising from the physical characteristics of the ore. The higher grade of concentrate recovered also involved a minor sacrifice in recovery which was well justified by savings in freight and treatment charges. Studies to improve recoveries are in progress. The grade of copper concentrate produced in the fourth quarter exceeded 29%.

Investigations to improve grinding capacity and efficiency are continuing. Evaluation of data derived from this study will be carried out during 1974. A program was initiated to upgrade and increase the capacity of the dust collector system throughout the concentrator.

The program of plantsite reclamation continued and seeding was carried out on 36 acres which had been disturbed during plant construction. A small trial block of trees and shrubs was established on a steep bank adjacent to the concentrator. Testing of methods for the revegetation of the tailings area continued but no permanent plantings can be carried out before 1975.

General

A work stoppage occurred on March 10, 1973 following the breakdown of negotiations for a new Collective Agreement with Local 7618, United Steelworkers of America. A new two-year agreement was signed on April 11 on the basis of recommendations by an officer of the British Columbia Department of Labour. Maintenance carried out after the signing of the agreement extended the interruption in production to a total of 41 days.

The work force at the year-end consisted of 305 hourly-rated employees and 100 staff members. Wages, salaries, and benefits paid to Company Personnel during 1973 were \$4,599,300 as compared to \$4,656,700 during 1972. The reduction in 1973 was due to the above mentioned work stoppage.

My sincere appreciation is extended to the directors, staff and all employees for their efforts during the past year.

Respectfully submitted,

Peachland, B.C.
February 8, 1974.

G. H. MONTGOMERY, P.Eng.,
Manager.

STATEMENT OF EARNINGS

YEAR ENDED DECEMBER 31, 1973 (With comparative figures for 1972)

	1973	1972
Gross value of concentrates produced	\$43,074,449	30,137,501
Less smelter and transportation charges	2,115,995	3,070,089
	<u>40,958,454</u>	<u>27,067,412</u>
Cost of concentrate production	12,156,080	13,145,542
Administration, selling and general expense	801,703	708,860
Municipal and sundry taxes	542,742	542,911
Depreciation and depletion (Note 1)	3,677,592	3,667,245
Preproduction expenditure written off	1,438,074	5,752,298
	<u>18,616,191</u>	<u>23,816,856</u>
Operating income	22,342,263	3,250,556
Interest on long-term debt	3,661,827	4,134,414
Financing expense written off (Note 1)	664,259	664,259
	<u>4,326,086</u>	<u>4,798,673</u>
Deduct other income	512,423	169,428
	<u>3,813,663</u>	<u>4,629,245</u>
Income (loss) before taxes on income	18,528,600	(1,378,689)
Taxes on income:		
Mining taxes:		
Current	1,650,267	140,906
Not currently payable (Note 1)	1,322,804	—
	<u>2,973,071</u>	<u>140,906</u>
Net earnings (loss) for the year	\$15,555,529	(1,519,595)
Earnings (loss) per share	<u>\$3.63</u>	<u>(0.35)</u>

STATEMENT OF RETAINED EARNINGS

	1973	1972
Balance at beginning of year:		
As previously reported	\$ 2,165,559	3,806,267
Adjustment of prior period mining taxes	—	121,113
As restated	2,165,559	3,685,154
Net earnings (loss) for the year	<u>15,555,529</u>	<u>(1,519,595)</u>
Retained earnings at end of year	<u>\$17,721,088</u>	<u>2,165,559</u>

See accompanying notes to financial statements.

BRENDA MINES LTD.

BALANCE SHEET — DECEMBER 31, 1973 (With comparative figures for 1972)

ASSETS

Current assets:	1973	1972
Accounts receivable (\$6,088,943 due from an affiliate, 1972 — \$4,786,079)	\$ 7,898,178	6,218,053
Inventories of concentrates and stores (Note 1)	18,022,262	19,875,795
Prepaid expenses	67,153	16,483
Total current assets	25,987,593	26,110,331
Fixed assets (Notes 1 and 2)	35,854,778	39,275,402
Other assets:		
Preproduction expenditures less amortization	—	1,438,074
Financing expense less amortization (Note 1)	2,657,029	3,321,288
Refundable power and other deposits (Note 3)	865,000	1,080,000
	3,522,029	5,839,362
	<u>\$65,364,400</u>	<u>71,225,095</u>

See accompanying notes to financial statements.

AUDITORS' REPORT

We have examined the balance sheet of Brenda Mines Ltd. as of December 31, 1973 and the statements of earnings, retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

Vancouver, British Columbia,
January 18, 1974.

LIABILITIES AND SHAREHOLDERS' EQUITY

Current liabilities:	1973	1972
Bank overdraft	\$ 192,696	140,917
Accounts payable (\$3,350,823 due to affiliates, 1972 — \$2,145,600)	6,350,634	3,433,650
Mining taxes payable	1,635,334	243,417
Debt due within one year	—	19,601,500
Total current liabilities	8,178,664	23,419,484
Long-term debt (Note 4)	29,923,846	36,930,475
Unrealized foreign exchange gain	—	491,579
Mining taxes provided but not currently payable (Note 1)	1,322,804	—
Shareholders' equity:		
Capital stock:		
Authorized 5,000,000 shares without nominal or par value; issued 4,282,000 shares	8,217,998	8,217,998
Retained earnings, per accompanying statement	17,721,088	2,165,559
Total shareholders' equity	25,939,086	10,383,557
On behalf of the Board:		
B. BRYNELSON, Director.		
J. A. HALL, Director.		
	<u>\$65,364,400</u>	<u>71,225,095</u>

SHAREHOLDERS

In our opinion, these financial statements present fairly the financial position of the company at December 31, 1973 and the results of its operations and the source and application of its funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

PEAT, MARWICK, MITCHELL & CO.,
Chartered Accountants

STATEMENT OF SOURCE AND APPLICATION OF FUNDS

YEAR ENDED DECEMBER 31, 1973 (With comparative figures for 1972)

	1973	1972
Working capital at beginning of year	\$ 2,690,847	15,360,829
Source of funds:		
Operations:		
Net earnings (loss) for the year	15,555,529	(1,519,595)
Add (deduct) items not requiring a cash outlay:		
Depreciation, depletion and amortization	5,779,925	10,083,802
Mining taxes provided but not currently payable	1,322,804	—
Other	314,718	201,688
Foreign exchange gain	(491,579)	—
Total from operations	22,481,397	8,765,895
Reduction in power and other deposits	215,000	250,000
	22,696,397	9,015,895
Application of funds:		
Purchase of fixed assets (less proceeds \$87,099; 1972 \$104,027) ...	571,686	2,084,184
Reduction in long-term debt	7,006,629	19,601,693
	7,578,315	21,685,877
Increase (decrease)	15,118,082	(12,669,982)
Working capital at end of year	\$17,808,929	2,690,847

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 1973

1. ACCOUNTING POLICIES:

Foreign currencies:

Current assets in United States currency have been converted into Canadian dollars at the rate of exchange in effect at December 31, 1973.

Inventories:

Copper and molybdenum concentrates are valued at estimated realizable value.
Stores are valued at lower of cost or replacement cost.

Depreciation and amortization:

Depreciation is provided on the straight-line-method at rates ranging from 6 $\frac{3}{4}$ % to 12 $\frac{1}{2}$ % per annum. Additions, betterments and renewals are capitalized and expenditures for maintenance and repairs are charged to expense. When depreciable assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and the resulting gain or loss is reflected in earnings.

Mineral claims and leases are being depleted over fifteen years.

Financing expense is being amortized over the expected term of the related long-term debt.

Taxes:

Mining taxes not currently payable, as the result of claiming for tax purposes amounts different from those recorded in the accounts (mainly depreciation), are charged against current earnings and recorded in the balance sheet as mining taxes provided but not currently payable. (Also see Note 5).

2. DETAILS OF FIXED ASSETS, AT COST, ARE AS FOLLOWS:

	1973	1972
Buildings, equipment and related facilities	\$41,900,817	41,727,402
Mobile equipment	6,609,240	6,667,883
Residential land and buildings	215,714	214,465
	48,725,771	48,609,750
Less accumulated depreciation	13,130,245	9,616,661
	35,595,526	38,993,089
Mineral claims and leases, at cost less depletion	259,252	282,313
	<u>\$35,854,778</u>	<u>39,275,402</u>

3. REFUNDABLE POWER DEPOSIT:

Under an agreement with the British Columbia Hydro and Power Authority for the supply of electricity the Company made deposits of \$2,000,000, which bear interest at 5%. The balance at December 31, 1973, of \$1,000,000 (of which \$250,000 is currently due) will be refunded in four equal annual instalments ending on August 1, 1977. The Company is committed to pay at least \$500,000 for electricity in each of the four years ending December 31, 1977.

4. LONG-TERM DEBT:

	1973	1972
Bonds, repayable out of cash flow, as defined:		
7.5% first mortgage bonds, due June 30, 1973	\$ —	19,600,000
7.3% second mortgage bonds, due March 31, 1975 (\$6,971,475 U.S. funds)	—	7,006,332
7.2% secured income bonds, due December 31, 1977 to an affiliated company	29,800,000	29,800,000
	<u>29,800,000</u>	<u>56,406,332</u>
Liability payable when the secured income bonds have been retired ...	50,000	50,000
Mortgages payable	73,846	75,643
	<u>29,923,846</u>	<u>56,531,975</u>
Less current portion	—	19,601,500
	<u>\$29,923,846</u>	<u>36,930,475</u>

The bonds outstanding are secured by a first fixed and floating charge on the assets of the company. Among other things, the trust deed securing the bonds prohibits the payment of dividends until the bonds and accrued interest thereon have been paid in full.

5. FEDERAL TAXES ON INCOME:

The provision for federal income taxes for 1973 would under normal circumstances, have amounted to \$6,112,000. Since depreciation and amortization recorded during the tax-free period (ended February 28, 1973) were not claimed for tax purposes they are available as additional deductions in subsequent periods. Such additional deductions more than offset otherwise taxable income in 1973 thus eliminating any federal income taxes for that year. The balance of depreciation and amortization recorded in the accounts but not claimed remains for use in future years.

6. ADMINISTRATION EXPENSE:

The aggregate direct remuneration paid to the directors and senior officers of the Company, as defined by the B.C. Companies Act, amounted to \$113,390.
